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STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

APPLICATION OF COMMUNITY NATURAL GAS CO., INC. FOR APPROVAL OF CHANGES IN ITS GAS RATES THROUGH GAS COST ADJUSTMENT IN ACCORDANCE WITH IND. CODE § 8-1-2-42(g)	))))))	CAUSE NO. 37488 GCA 98 APPROVED: OCT 1 5 2008

BY THE COMMISSION:
William G. Divine, Administrative Law Judge

On August 13, 2008, in accordance with Indiana Code § 8-1-2-42, Community Natural Gas Company, Inc. ("Petitioner") filed its Petition with attached Schedules in this Cause for approval for a Gas Cost Adjustment ("GCA") to be applicable during the months of November 2008 through January 2009. On September 10, 2008, Petitioner prefiled the Verified Testimony and Exhibits of Mandy Goldman in support of its Petition and a revised GCA factor reflecting additional hedging for the GCA periods. The Indiana Office of the Utility Consumer Counselor ("OUCC"), in conformance with the above statute, filed the Testimony, Exhibits, and Statistical Report of its witness Sherry L. Beaumont on September 18, 2008.

Pursuant to notice published as required by law, proof of which was incorporated into the record by reference and placed in the official files of the Commission, an evidentiary hearing was held in this Cause on September 23, 2008 at 1:30 p.m. at the National City Center, 101 West Washington Street, Room 222, Indianapolis, Indiana. At the hearing, Petitioner and the OUCC presented their respective evidence. No member of the rate paying public was present at the hearing. However, the Commission Staff raised two issues relating to the information contained in Petitioner's schedules. Petitioner sought an appointment to review these issues and on September 26, 2008 filed as a late filed exhibit revised schedules addressing these issues.

Based upon the applicable law, the evidence presented herein, and being duly advised, the Commission now finds:

1. **Statutory Notice and Commission Jurisdiction.** Due, legal and timely notice of the hearing in this Cause was given and published by the Commission as required by law. Petitioner operates a public gas utility and as such, is subject to the jurisdiction of this Commission as provided in the Public Service Commission Act, as amended. Therefore, the Commission has jurisdiction over the parties and the subject matter herein.

2. **Petitioner's Characteristics.** Petitioner is a corporation organized and existing under the laws of the State of Indiana, and has its principal service office at 116 North Main Street, Owensville, Indiana. It is engaged in rendering natural gas utility service to the public in Gibson, Posey, Dubois, Spencer, Greene, Monroe, Pike, Warrick, Owen and Sullivan Counties within the State of Indiana. Petitioner owns, operates, manages and controls plant and equipment used and useful for the distribution and furnishing of such service.

3. **Source of Natural Gas.** Indiana Code § 8-1-2-42(g)(3)(A) requires Petitioner to make every reasonable effort to acquire long-term natural gas supplies in order to provide service to its customers at the lowest gas cost reasonably possible. The evidence demonstrates that Petitioner continues to follow a policy of securing natural gas supply at the lowest gas cost reasonably possible in order to meet the Petitioner's current and anticipated customer requirements. Petitioner is served by four interstate pipelines: ANR, Texas Eastern, Midwestern, and Texas Gas. Petitioner continues to obtain its natural gas supply with the assistance of ProLiance Energy and maintains storage capacity on two of the interstate pipelines that serve Petitioner.

Petitioner's witness Goldman testified that Petitioner's gas procurement strategy includes fixed-cost contract purchases and the use of stored gas. Petitioner's Revised Schedule 3 reflects the purchase of fixed contracts for this GCA period. That testimony also indicates that Petitioner will have stored gas available for this GCA period. The combined effect of fixed contract purchases and storage gas is approximately 40% of the estimated sales for this period.[1] Based upon Petitioner's historical hedging activities, including the evidence offered relative to this GCA, the Commission finds that the Petitioner has made reasonable efforts to acquire long-term natural gas supply in order to serve its customers at the lowest gas cost reasonably possible.

4. **Purchased Gas Cost Rates.** Indiana Code § 8-1-2-42(g)(3)(B) requires Petitioner's pipeline supplier(s) of gas to have requested or filed for a change of cost of gas pursuant to the jurisdiction and procedures of a duly constituted regulatory agency. The evidence of record indicates that gas costs in this application include transportation rates that have been filed by Petitioner's pipeline suppliers in accordance with Federal Energy Regulatory Commission ("FERC") jurisdiction and procedures. The Commission reviewed the cost of gas included in the proposed gas cost adjustment charge and finds the costs to be reasonable. Thus, the Commission finds that the requirement of this statutory provision has been fulfilled.

5. **Return Earned.** Indiana Code § 8-1-2-42(g)(3)(C), in effect, prohibits approval of a gas cost adjustment that results in Petitioner earning a return in excess of the return authorized by the last Commission proceeding in which Petitioner's base rates and charges were approved. The most recent proceeding, in which Petitioner's base rates

[1] Even though the witness testified that 67% is the correct estimate for the combined effect of fixed contract purchases and storage gas, 40% is the correct figure when the estimate is calculated correctly.

and charges were approved was our Order in Cause No. 43377. The Final Order dated August 27, 2008 authorized Petitioner to earn a net operating income of $514,110. The Commission's May 28, 2008 Interim Order, in existence during the reconciliation period for this GCA, authorized Petitioner to earn a net operating income of $458,049. Petitioner's evidence herein indicates that for the twelve (12) months ending June 30, 2008, Petitioner's actual net operating income was $388,620. As a result, based on the evidence of record, the Commission finds that Petitioner did not earn in excess of that authorized in its last rate case during the twelve month review period.

6. **Estimation of Purchased Gas Costs.** Indiana Code § 8-1-2-42(g)(3)(D) requires that Petitioner's estimate of its prospective average gas costs for each future recovery period be reasonable. The Commission has determined that this requires, in part, a comparison of prior estimations with the eventual actual costs.

The evidence indicates that the estimating techniques during the reconciliation period of January through March of 2008 (the "Reconciliation Period") yielded an under-estimated weighted average error of 31.6%. Petitioner's witness Goldman described in her testimony that the cause of the variance was related to the increase in the price of natural gas that occurred after the estimates and GCA filings that established the GCA factors for April, May and June, 2008. In light of the Petitioner's historical accuracy in estimating the cost of gas and its explanation in this proceeding, the Commission finds that Petitioner's estimating techniques are sound and Petitioner's prospective average estimate of gas cost is reasonable.

7. **Reconciliation.** Indiana Code § 8-1-2-42(g)(3)(D) also requires that the petitioning utility reconcile its estimation for a previous recovery period with the actual purchased gas cost for that period. The evidence presented in this current proceeding established that the variance for the Reconciliation Period is an under-collection of $384,157 from its customers. This amount should be included, based on estimated sales percentages, in this GCA and the next three GCAs. The amount of the Reconciliation Period variance to be recovered in this GCA as an increase in the estimated net cost of gas is $178,812.

The variance from prior recovery periods applicable to the current recovery period is an over-collection of $83,649. When this amount is combined with the Reconciliation Period, the result is a total under-collection of $95,163 to be applied in this GCA as an increase in the estimated net cost of gas.

Petitioner received no new refunds during the Reconciliation Period, and has no refunds from prior periods applicable to the current GCA. Therefore, Petitioner has no refunds to be returned in this application. Based upon the evidence of record, the Commission finds that the Petitioner's proposed GCA properly reconciles the difference between the actual costs for the Reconciliation Period and the gas costs recovered during the same period.

8. **Resulting Gas Cost Adjustment Factor.** In the Commission's Interim Order in 43377 noted above, the Commission authorized Petitioner to eliminate the commodity cost of gas from base rates. The estimated cost of gas to be recovered during the application period is $4,251,684. When this total is adjusted for the variance and refund amounts, the result is $4,346,847 in gas costs to be recovered through this GCA. After dividing that amount by estimated sales, subtracting the base cost of gas, and adjusting for Indiana Utility Receipts Tax, the proposed GCA factor is $11.0553/Dth.

9. **Effects on Residential Customers.** The GCA factor of $11.0553/Dth represents a decrease of $0.5408 from the current GCA factor of $11.5961/Dth. The approximate effect of this change for various consumption levels of residential customer bills is shown in the following table:

Table 1
Effect on Residential Customers
New vs. Current

Monthly Consumption Dth	Bill at New GCA Factor	Bill at Current GCA Factor	Dollar Change	Percent Change
5	$80.39	$83.09	$(2.70)	(3.2)%
10	$149.78	$155.18	$(5.40)	(3.5)%
15	$214.49	$222.60	$(8.11)	(3.6)%
20	$279.20	$290.02	$(10.82)	(3.7)%
25	$343.91	$357.44	$(13.53)	(3.8)%

The GCA factor of $11.0553/Dth represents an increase of $8.6798 from the GCA factor and base rate cost of gas of $2.3755/Dth billed one year ago in Cause No. 37448 GCA 94 (excluding the commodity cost of gas included in base rates of $5.8510/Dth). The approximate effect of these changes for various consumption levels of residential bills are shown in the following table:

Table 2
Effect on Residential Customers
<u>New vs. One Year Ago</u>

Monthly Consumption [Mcf or Dth]	Bill at New GCA Factor	Bill at GCA Factor One Year Ago	Dollar Change	Percent Change
5	$80.39	$62.21	$18.18	29.2%
10	$149.78	$115.42	$34.36	29.8%
15	$214.49	$164.63	$49.86	30.3%
20	$279.20	$213.84	$65.36	30.6%
25	$343.91	$263.05	$80.86	30.7%

10. **Interim Rates.** The Commission is unable to determine whether Petitioner will earn an excess return while this GCA is in effect. Accordingly, the Commission finds that the approved rates herein should be interim rates subject to refund in the event an excess return is earned.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION that:

1. The Petition of Community Natural Gas Company, Inc. for the gas cost adjustment for natural gas service, as set forth in Finding Paragraph No. 8, shall be and hereby is approved, subject to refund in accordance with Finding Paragraph No. 10.

2. Community Natural Gas Company, Inc. shall file with the Natural Gas Division of the Commission, prior to placing into effect the gas cost adjustments herein approved, separate amendments to its rate schedule with the reasonable reference therein reflecting that such charges are applicable to the rate schedules reflected on the amendment.

3. This Order shall be effective on and after the date of its approval.

GOLC, LANDIS, SERVER AND ZIEGNER CONCUR; HARDY ABSENT:
APPROVED: OCT 15 2008

I hereby certify that the above is a true and correct copy of the Order as approved.

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission